

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 /026 W

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P R 101020Z MAY 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 3874

INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY TEHRAN

C O N F I D E N T I A L CAIRO 4695

EXDIS

E.O. 11652: GDS

TAGS: USEGJC EAID EFIN

SUBJECT: FINANCIAL DIFFICULTIES INCREASE: GOE CREDIT SLIPS

REF: CAIRO 4330; B. LONDON 6999

1. GOE HAS DEFAULTED ON PAYMENT OF INSTALLMENT DUE ON RESCHEDULED DEBT TO UK. EMBASSY HERE TELLS US THIS IS FIRST TIME IT HAS HAPPENED. AMOUNTS INVOLVED ARE REPORTEDLY NOT LARGE, ON ORDER OF 200,000 STERLING, AND REPRESENT SIGNIFICANT PORTION OF APPROXIMATELY L1 MILLION REMAINING TO BE PAID.

2. UK EMBOFFS CALLED ON CENTRAL BANK TO DISCUSS MATTER AND WERE TOLD THAT THERE IS NOTHING LEFT WITH WHICH TO MAKE PAYMENTS. BANK OFFICIALS REPORTEDLY SAID THAT THERE WILL HAVE TO BE A NUMBER OF DEFAULTS ON PAYMENTS FALLING DUE ON A WIDE RANGE OF DEBTS UNLESS SOMETHING HAPPENS IN THE IMMEDIATE FUTURE TO BRING IN CASH. IRANIAN MONEY RECEIVED A FEW WEEKS AGO (\$120 TO \$125 MILLION DEPENDING ON WHO IS ASKED) HAS LONG SINCE BEEN SPENT TO COVER SHORTFALLS, AND \$100 MILLION ALLEGEDLY PROMISED BY KUWAIT HAS NOT BEEN RECEIVED.

3. EROSION OF EGYPTIAN CREDITWORTHINESS IS ALSO REFLECTED IN REFTEL
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B, WHICH REPORTS THAT BANKERS IN LONDON ARE WITHDRAWING EXISTING

CREDIT LINES, REFLECTING GROWING DOUBT ABOUT ECONOMIC FUTURE AND INABILITY TO REPAY EXISTING LOANS.

4. COMMENT: DANGER OF PRESENT SITUATION IS THAT CORRESPONDENT BANKS MAY CREATE EXACTLY THE CIRCUMSTANCE THEY WISH TO AVOID: FINANCIAL COLLAPSE. WITHDRAWAL OF CREDIT BY BANK A RESULTS IN A DEFAULT ON PAYMENT TO BANK B, WHICH WITHDRAWS CREDIT, RESULTING IN DEFAULT ON BANK C, AND SO ON, UNTIL ENTIRE STRUCTURE COLLAPSES. THIS TYPE OF SELF-FULFILLING PROPHECY APPEARS TO BE ON THE NEAR-TERM HORIZON UNLESS THERE IS A MARKED CHANGE IN AVAILABILITIES OF FUNDS.

5. DURING VISIT OF UNDERSEC ROBINSON, IT BECAME CLEAR THAT AT LEAST SOME TOP-LEVEL GOE OFFICIALS DO NOT FULLY COMPREHEND MAGNITUDE OF THE PROBLEM. CURRENT PLANS FOR REMAINDER OF THIS YEAR, ALL OBVIOUSLY POLITICALLY MOTIVATED, CALL FOR MASSIVE INCREASES IN IMPORTS, ACROSS THE BOARD, BUT PARTICULARLY IN FOODSTUFFS, WITH NO CLEAR IDEA AS TO WHERE THE FUNDS WILL BE OBTAINED. WE HAVE IMPRESSION THAT CONSIDERABLE NUMBER OF ORDERS HAVE ALREADY BEEN PLACED FOR DESIRED GOODS.

6. IMPOSSIBILITY OF KEEPING GROWING CRISIS A SECRET IS EVIDENT HERE IN CAIRO, WHERE IT HAS ALREADY BECOME DINNER-PARTY TOPIC OF CONSIDERABLE INTEREST. WE HAVE BEEN AVOIDING SUBJECT INsofar AS POSSIBLE, AND POINTING OUT SHORT-TERM NATURE OF DIFFICULTY WHEN PRESSED, BUT IT IS CLEAR THAT A MAJOR PROBLEM IS ARISING. EGYPTIANS ARE SENSITIVE TO ANY SUGGESTIONS IMPUGNING THEIR CREDITWORTHINESS AND US OFFICIALS SHOULD BE CAUTIOUS IN DISCUSSING SUBJECT LEST IMPRESSION IS GIVEN WE LACK CONFIDENCE IN EGYPT'S FUTURE PROSPECTS. EILTS

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 MAY 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CAIRO04695
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750164-0962
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750562/aaaacedp.tel
Line Count: 90
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 75 CAIRO 4330, 75 LONDON 6999
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2003 by CunninFX>; APPROVED <04 NOV 2003 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DIFFICULTIES INCREASE: GOE CREDIT SLIPS
TAGS: EAID, EFIN, EG, USEGJC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006